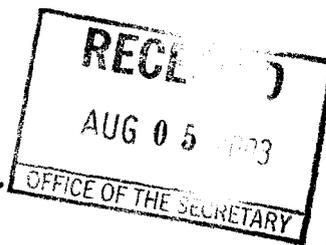


MEMORANDUM



TO: Commission File S7-17-02

FROM: Keith E. Carpenter *Keith E. Carpenter*
Senior Special Counsel
Division of Investment Management *H 3*

RE: Proposed Amendments to Investment Company Advertising Rules
Release No. IC-25575

DATE: August 5, 2003

In telephone conversations on July 14, July 18 and July 21, 2003, Susan Nash and I spoke with Heidi Stam and Lisa Matson of The Vanguard Group to clarify a comment in Ms. Stam's July 31, 2002, comment letter on the proposed advertising rule amendments. The comment letter stated that if the Commission eliminates funds' ability to rely on rule 134 under the Securities Act, as proposed, then it should permit advertisements that "brand" a fund complex under rule 135a under the Securities Act. Specifically, the letter stated that the Commission should permit the use of fund complex names in rule 135a advertisements.

In response, Ms. Stam and Ms. Matson sent us written material reflecting the NASD's view on naming fund complexes in rule 135a advertisements (Attachment A). In addition, Ms. Stam and Ms. Matson provided us with certain training material prepared by the Investment Company Institute (Attachment B). They also provided examples of rule 134 advertisements published by Vanguard (Attachment C). Ms. Stam indicated that Vanguard might include in rule 135a advertisements some of the information currently included in such rule 134 advertisements, if the Commission eliminates funds' ability to rely on rule 134 and permits naming of fund complexes in rule 135a advertisements.

ATTACHMENTS

Provided by NASD - Advertising
Regulation Seminar 2002

SEC Rule 135A

- Generic
- ~~*~~ Not product'specific
- Prohibited:
 - Names, logos, family names
 - Information about specific funds
- Permitted:
 - Investment company types
 - Features common to all funds
 - Financial principles
 - Economic information

SEC Rule 135A

-
- If the advertisement or sales literature solicits a response and;
 - If prospectuses will be offered to those responding, the advertisement must disclose:
 - Number of funds for which prospectuses will be provided
 - That the advertisement's sponsor is the distributor or underwriter, as applicable

SEC Rule 135A

COMPLIES

Considering your long-term financial objectives?

Think about Mutual Funds

Benefits:

Professional Management - Experienced investment professionals manage your money according to the **fund's** objective (e.g., growth, income, tax-exempt income).

Diversification - You don't put all your "eggs in one basket" because mutual funds invest in dozens, sometimes hundreds, of stocks, bonds, and/or cash investments. Diversification can reduce the risks of investing in a single **security**.

Easy access to your money - You can redeem your shares on **any** business day **at** the current share price, **which** may be more or **less** than your original *cost*.

Risks:

The investment return and principal value of your investment will fluctuate.

If you would like to know more about the ten mutual funds advised and distributed by Funds & Company, write for 135A Main Street, **Suite** 200, New York, **NY** 10001.

Complies:

Contains generic, educational investment

Copy of reference material from
 - ICI's computer based tutorial Part I

Mutual Funds Communications with the Public

reason, these communications must be preceded or accompanied by a fund prospectus or profile.

Exemptions from the Prospectus Delivery Requirement

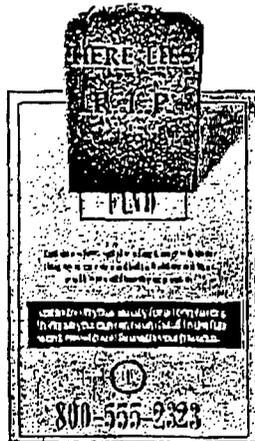
All mutual fund advertisements and sales literature must be preceded or accompanied by a prospectus or profile unless they comply with the terms of one of the following exemptions from the prospectus delivery requirement:

- Rule 134 - Tombstone ads
- Rule 135a - Generic ads
- Rule 482 - Performance ads

Rule 134 - Tombstone Ads

These advertisements became known as "tombstone ads" because, like a tombstone, they contain only **basic** information.

Additionally, tombstone ads must include the required "legend," the substance of which is: "For more complete information about (fund name), including charges and expenses, obtain a prospectus from (the fund company). Read it carefully before you invest or send money."

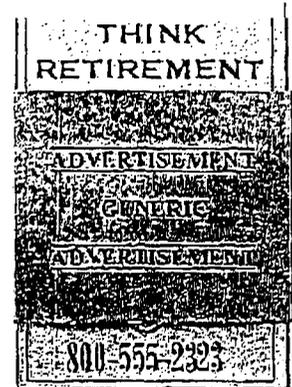


The required legend must appear in a type size at least as large as the text of the ad but in a different **style** to ensure that the legend stands out. The type **style** of the legend must be at least as prominent as that of the text. When tombstone ads are used in radio and television, the legend must, at a minimum, be emphasized to the same extent as the major *portion of the advertisement.*

Tombstone ads for money market funds must also include a legend to the effect that: "An investment in the Fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund."

Rule 135a - Generic Ads

Rule 135a allows "generic" advertisements. Generic ads do not name a particular fund or fund family; instead, they may describe fund types (e.g., growth funds) or services. Mutual fund companies often use generic ads in "image" advertising or educational campaigns.

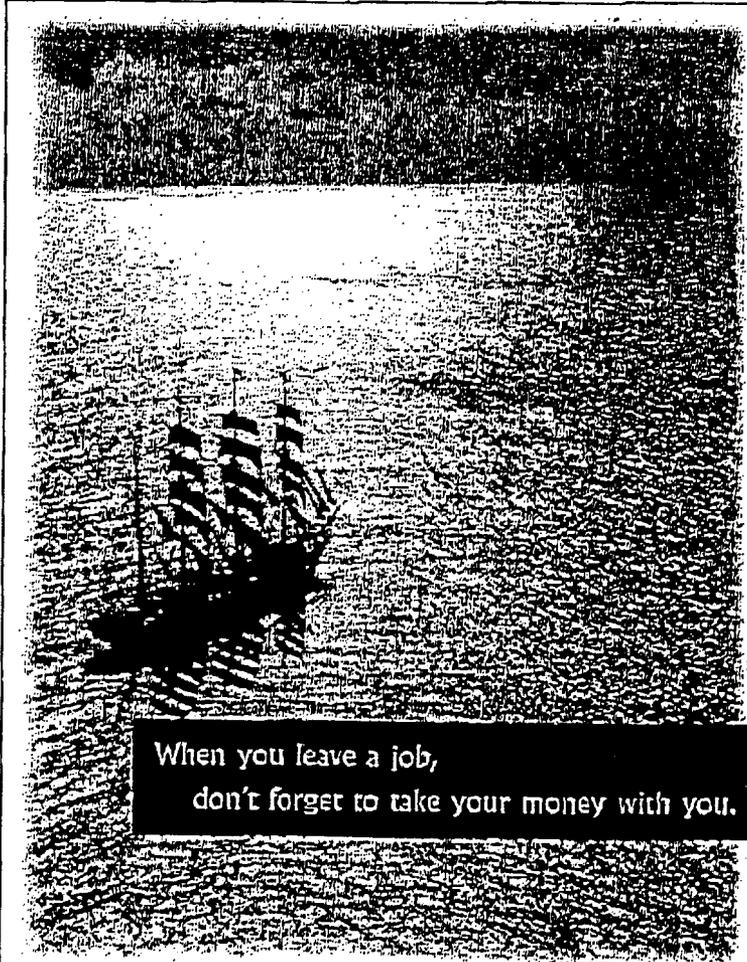


Generic ads must include the name of the sponsoring broker-dealer or investment adviser.

Tombstone ads may include ...	Tombstone ads may not include ...
<ul style="list-style-type: none"> ■ the name of the fund, type of fund, objective, policies and services, ■ the name and address of the fund's distributor or investment advisor, ■ an attention-getting headline, corporate logos, graphic designs and pictures and ■ data about general economic conditions, retirement plans or goals 	<ul style="list-style-type: none"> ■ performance information, ■ rankings or ■ hypothetical illustrations.

Generic ads may include ...	Generic ads may not include ...
<ul style="list-style-type: none"> ■ an offer for a fund prospectus. ■ an explanation of where to direct inquiries for more information and ■ descriptions of products and services that are not securities and not related to the benefit of owning shares (e.g. Roth IRAs or investing to fund a college education). 	<ul style="list-style-type: none"> <input type="checkbox"/> performance information and ■ the name of a particular fund or fund family.

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don't forget to take your money with you.

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Ad:	81	Client:	Vanguard
Live Area:	8.437 x 10.5	Trim:	Newspaper
Vendor:	Contemporary Graphics	Insertion Date:	02/25/2001
Contact:	Jerry Meredith 800-575-4238	Pub:	Bergen County Record
Line Screen:	NA	Form:	0784



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